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Interim Chief Medical Officer

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

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July 27, 2010

TO: Each Supervisor

FROM: for John F. Schunhoff, Ph.D. Carol Meyer
Interim Director

SUBJECT: **DEPARTMENT OF HEALTH SERVICES' (DHS) FISCAL OUTLOOK - UPDATE ON PENDING REVENUE OPTIONS [AGENDA ITEM #S-1, JULY 27, 2010]**

This is to provide you with an update of changes in our fiscal outlook since our last Budget Committee of the Whole report to your Board on May 18, 2010. Because we are in the process of closing the books for FY 2009-10 and opening the books for FY 2010-11, the financial numbers are still under review and we are not, therefore, providing an updated Summary of Changes in the DHS Fiscal Outlook [usually Attachment I]. Instead, this memo will report on the updated status of key revenue sources critical for closing the projected deficits for FYs 09-10 and 10-11.

Extension of Enhanced FMAP

The U.S. Senate failed to obtain enough votes for a jobless benefits bill that included a provision to extend the enhanced FMAP Medicaid matching rate for six months to June 30, 2011. Our Washington lobbyists have advised that they believe another attempt will be made to introduce the enhanced FMAP either in a stand-alone bill or it could be included in some other legislation before the Congressional recess in August. However, it is also possible that FMAP legislation will not be addressed until after the November elections, if at all. If FMAP extension legislation is not passed, it is very unlikely that the hospital fee will be extended for that period. The value to DHS of an enhanced FMAP six-month extension at the current enhanced rate is $33.8 million in FY 10-11.

Hospital Provider Fee

Approval of the Hospital Provider Fee by the Centers for Medicare and Medicaid Services' (CMS) remains pending. The State submitted a revised proposed fee and distribution model to CMS last week. The revised model incorporated required changes in the managed care portion of the fee, along with other reductions. It is our understanding that this will reduce the annual revenue to DHS from $137 million to $115 million. If the fee proposal is approved, it is expected to be retroactive to April 2009 and thus worth $144 million in FY 09-10 and $57.5 million in FY 10-11. If the six month enhanced FMAP extension is approved at the current enhanced rate and the hospital fee is approved by CMS, it is projected that the extended hospital fee will bring in another $57.5 million or a total of $115 million in FY 10-11. Although the sponsors of the fee believe that CMS will approve this revised fee model, we still are concerned that there could be additional changes. Since the revised fee will require legislative approval [AB 1653 – Jones is being amended to do this], CMS approval is needed quickly to implement the fee.

1115 Waiver

The Waiver proposal which the State submitted to CMS contains a number of provisions which are designed to provide support to public hospitals as part of the safety net. The State is continuing negotiations with CMS and once the negotiations with CMS are concluded, legislative actions to implement it will be needed. The State indicates that they expect to complete the process by the time the current Waiver expires on August 31, 2010. DHS and the California Association of Public Hospitals and Health Systems participated with the State in one conference call with CMS to discuss components of the Waiver specific to the public hospitals.

In previous reports, we have included as "Ideas for Potential Solutions" obtaining an additional $150 million from the Waiver. Whether this amount of additional funding is attainable is very uncertain and will not be known until a number of key components of the Waiver are negotiated, including budget neutrality, the proposed 150% upper payment limit, the coverage initiative, and the improvements pool.

Summary

As described above, there is uncertainty concerning each of these potential revenue sources. If none of them are realized, the Department faces a deficit up to $429 million in FY 10-11. Without these revenue solutions, closing the funding gap will require significant reductions in services. If all of these potential revenue sources are approved and implemented at their maximum potential, DHS will still have a projected deficit in FY 10-11 exceeding $100 million, which could be addressed with a combination of less significant reductions and the use of one-time funding. It is more likely that we will end up between these two numbers and significant reductions in services will need to be proposed. Between 260,000 and 420,000 individuals will not be able to receive services from DHS.

With the passage of National Health Reform and the expansion of Medicaid coverage by 2014, DHS understands that it will need to transform its system to manage and coordinate the care of the Medi-Cal patients who maintain their medical homes in the DHS system. If significant service reductions are needed to balance the budget, it will be nearly impossible to find the funds to invest in system restructuring.

If you have any questions or need additional information, please let me know.

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c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors